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SUBJECT: UAE NUCLEAR TENDER -- THE WORLD'S LARGEST (AND FASTEST)
PROCUREMENT?

CLASSIFIED BY AMBASSADOR RICHARD G. OLSON FOR REASONS 1.4 B AND D

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¶1. (C/NF) Summary. The United Arab Emirates' effort to establish a civilian nuclear power industry moved closer to implementation during a February 5-7 "engagement conference" for interested bidders. Emirates Nuclear Energy Corporation (ENEC) invited major U.S., French, Korean and Japanese firms who hope to participate in a program that ultimately may include as many as 12-15 nuclear plants valued at over \$70 billion. (The Russians have been dropped because of their support for Iran.) Technology, construction and operating firms will bid as consortiums, and the downselect is expected in early May. Capacity, commercial terms and "political risk" (e.g. guaranteeing technology access through bilateral agreements like the 123) will be key factors in the decision. ENEC plans to announce the selection of the primary contractor on September 1. The UAE is clearly signaling that it intends to stay on this aggressive timeline even if some potential participants (the U.S.) drop out. The UAE believes it needs to be at the head of the pack amongst countries trying to benefit from the worldwide nuclear renaissance. End Summary.

THE TENDER AND TIMELINE -----

¶2. (C/NF) As outlined in reftel, the UAE has been steadily moving forward with plans to bring its first peaceful nuclear power plant online by May 1, 2017. In order to meet this target, ENEC conducted a technology road show to Europe, Asia and the United States in December 2008 to attract firms to its February bidders conference. As all firms are subject to a strict nondisclosure agreement, David Scott, Director for Economic Affairs at the Executive Affairs Authority and a key official in the UAE's nuclear program, provided EconOff with an overview of the tender on February 9.

¶3. (C/NF) Describing the tender as an opportunity firms in the nuclear industry "could not afford to miss," Scott explained that the Primary Contractor will not only provide the initial 4000-5500 megawatts capacity, but will likely secure the entire project currently valued at more than \$70 billion. Primary Contractors will bid as a consortium of a nuclear steam supply system (NSSS) provider, engineering, procurement and construction (EPC) contractor, and operator. As the UAE plans to rapidly deploy a turnkey fleet of nuclear power plants in order to meet projected electricity demand, Scott said the bidding process was designed to minimize interfaces and reduce delays. The contract will be cost reimbursable, which should result in savings for ENEC, and will not include a force majeure clause. Similarly, incentives -- for the primary contractor

and ENEC -- will be based on meeting schedule and safety targets. Although two separate contracts will be signed with the primary contractor consortium (one with NSSS and EPC contractors and one with the operator), the consortium approach encourages the three entities to work as a team to meet schedule targets.

¶4. (C/NF) Firms left the engagement conference with instructions on how to prepare a Request for Qualification (RFQ), which is due in late April. From an expected 4-5 submissions, Scott said the UAE plans to announce the downselection of 2-3 consortiums around May 5. The downselect will be based on a review of bidders' ability to meet the project scope and delivery schedule, which will be based in part on project backlog and past delivery. Scott also noted that "political risk" will be a factor, as necessary bilateral nuclear cooperation agreements, such as the U.S.-UAE 123 Agreement, must be in place (or very near completion). In the context of this timeline, Scott indicated that the 123 would need to be submitted to Congress in late March or early April for U.S. firms to be downselected. Westinghouse officials report that ENEC made clear the lowest price would not trump a superior bid from a consortium that demonstrated a long-term commitment to the project. Westinghouse said the UAE had also stressed the importance of including training for local operators and service providers, particularly Emiratis. ENEC will then negotiate with the downselected consortiums and plans to sign a contract by September 1.

U.S. INTEREST - AND COMPETITION

¶5. (C/NF) Scott said that seven U.S. firms attended the engagement conference: GE and Westinghouse (NSSS providers), EPC firms Bechtel

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and Shaw, and operators Exelon and Entergy. ConocoPhillips also attended, as the firm is considering developing a nuclear division and is looking to provide financing to a consortium. Scott said that Fluor was invited but did not participate, likely as they were not teamed with a technology provider. GE and Westinghouse officials have confirmed to EmbOffs that they plan to request USG advocacy for their bids. However, Westinghouse representatives told the Ambassador on February 8 that ENEC stressed that bidders should not seek to influence the decision in any outside channels and threatened that approaching other UAE entities -- or otherwise violating their nondisclosure agreements -- would result in firms' exclusion from the tender.

¶6. (C/NF) Scott reported that the French (Areva), Koreans (KEPCO) and Japanese (Hitachi, Toshiba, and Mitsubishi Heavy Industries) were all present at the conference and "very excited" about the tender. Scott said (and Westinghouse officials confirmed) that Russian firms were excluded as Russia's support for Iran's program made their involvement unacceptable to UAE leadership. The UAE is striving to maintain the "pristine" nature of their program by avoiding any questionable nationalities, including Iraqis, Iranians and others.

UNPARALLED OPPORTUNITY

¶7. (C/NF) The size of the tender makes it extremely attractive to the nuclear industry, as it will provide a steady and likely financially guaranteed income stream for over ten years. Unlike other countries who have expressed interest in nuclear power, U.S. industry reps report the UAE is aggressively pursuing its nuclear tender timeline. More broadly, the UAE program has the potential to delay other countries' nuclear projects, given industry's limited production capacity. The rapid deployment and large scale of the UAE program will also promote technological innovation. Further, technologies developed for the harsh UAE climate will give involved firms a leg-up in the region.

NEXT STEPS

¶8. (C/NF) While firms are preparing their RFQs, ENEC and other UAEG entities are focusing on completing key regulatory steps. Scott said that the UAEG continues to try to "rationalize" the comments received

from the IAEA, United States and other governments on the draft nuclear law. Noting the Cabinet had approved the deposit of four conventions with the IAEA (Convention on Nuclear Safety, Joint Convention on the Safety of Spent Fuel Management, Additional Protocol to Safeguards Agreement, Amendment to the Convention on the Physical Protection), Scott said the UAE plans to do so in advance of the March 2-6 IAEA Board of Governors meeting. The UAE also continues work on a liability law and other Federal Authority for Nuclear Regulation (FANR) regulations.

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